# First Quarter Financial Report 2016-17

For the period ended June 30, 2016

Farm Credit Canada
Advancing the business of agriculture

Canada

## Farm Credit Canada

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation, reporting to Parliament through the Minister of Agriculture and Agri-Food. We provide financing and other services to more than 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 100 offices located primarily in rural communities, our more than 1,700 permanent employees are passionate about the business of agriculture.

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Contact Corporate Communication at communications@fcc-fac.ca for more information.

# First Quarter Financial Report 2016-17
## For the period ended June 30, 2016

This report was prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and should be read in conjunction with disclosures and information contained in FCC's Annual Report and Corporate Plan Summary.[1]

## Financial results

This document contains the corporation's unaudited financial results for the first quarter, which ended June 30, 2016. The corporation is on track to meet the financial performance measures for the current fiscal year as outlined in the Corporate Plan Summary for 2016-17 to 2020-21.

**Net income overview**
**($ millions)**

| | Three months ended | |
|---|---|---|
| | **June 30, 2016** | June 30, 2015* |
| Net interest income | **$ 240.9** | $ 242.0 |
| Provision for credit losses | **(14.1)** | (16.8) |
| Non-interest income | **3.5** | 14.4 |
| Administration expenses | **(90.2)** | (84.0) |
| Fair value adjustment | **(1.5)** | (3.7) |
| **Net income** | **$ 138.6** | $ 151.9 |

*Restated (see Note 2 of the Notes to the Condensed Consolidated Financial Statements for additional details)

In the first quarter of 2016-17, net income was $13.3 million lower than the same quarter for 2015-16. This was mainly due to a decrease in non-interest income of $10.9 million and an increase in administration expenses of $6.2 million, partially offset by a decrease in provision for credit losses of $2.7 million and an increase in fair value adjustment of $2.2 million.

Net interest income for the three-month period ended June 30, 2016, decreased $1.1 million primarily due to lower margins. The net interest margin for the three-month period ended June 30, 2016, decreased to 3.18% from 3.36% for the comparable period in 2015-16, mainly due to competitive pressure.

Non-interest income for the three-month period ended June 30, 2016, decreased $10.9 million mainly due to a decrease in net income from investment in associates, which is primarily related to higher unrealized gains recorded in the prior year.

Administration expenses increased $6.2 million year-over-year mainly due to an increase in professional fees, facilities expense and salaries.

[1] These documents are available at www.fcc-fac.ca/en/about-fcc/governance/reports.

### Loans receivable

FCC experienced overall growth in loans receivable of $1,008 million from March 31, 2016, bringing its loan portfolio to $29,664 million at June 30, 2016. Loan portfolio growth of 3.5% for the three months ended June 30, 2016, was higher than the loan portfolio growth of 2.8% for the first three months of the prior fiscal year. This was mainly due to higher net disbursements in the current fiscal year. Net disbursements for the three months ended June 30, 2016, were $2,970 million, an increase of $449 million, or 17.8%, over the three months ended June 30, 2015.

### Cash flow

Cash and cash equivalents at June 30, 2016, decreased by $275 million from $1,178 million at June 30, 2015. For the three-month period ended June 30, 2016, cash of $846 million was used in operating activities, while $823 million and $94 million was provided by financing activities and investing activities respectively.

## Outlook against Corporate Plan Summary

FCC is projected to meet all year-end financial targets as outlined in the Corporate Plan Summary for 2016-17 to 2020-21.

| Measure | Outlook |
|---|---|
| Net income | On track with Corporate Plan |
| Return on equity | On track with Corporate Plan |
| Efficiency ratio | On track with Corporate Plan |
| Total capital ratio | On track with Corporate Plan |

## Enterprise risk management

FCC has an enterprise risk management framework to manage risks efficiently, consistently and in a co-ordinated manner. The corporation is exposed to six main categories of risk: credit, market, liquidity, operational, strategic and reputation.

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making. The Risk Committee of the Board reviews risk reporting quarterly.

FCC's risk assessment process includes risk identification and assessment, measurement, control, monitoring and reporting. This is an ongoing process for credit and market risk. All risks are assessed annually during the strategic planning process and constitute the corporation's risk profile. Enterprise Management Team members are responsible for developing and implementing risk management strategies and action plans to mitigate the corporation's top risks.

Based on these processes, no new material risks were identified this quarter.

## Statement of management responsibility

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in this quarterly report is consistent, where appropriate, with the consolidated quarterly financial statements.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.

Michael Hoffort, P.Ag.
President and Chief Executive Officer

Rick Hoffman, CPA, CMA, MBA
Executive Vice-President and Chief Financial Officer

*Regina, Canada*
*August 4, 2016*

# Condensed Consolidated Financial Statements
## Consolidated Balance Sheet

| (Unaudited)<br>(thousands of Canadian dollars) | | June 30, 2016 | | March 31, 2016 |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ | 902,729 | $ | 831,387 |
| Temporary investments | | 211,443 | | 337,049 |
| Accounts receivable | | 22,035 | | 24,820 |
| Derivative financial assets | | 43,856 | | 47,510 |
| | | 1,180,063 | | 1,240,766 |
| Loans receivable – net (Notes 3 and 4) | | 29,442,753 | | 28,445,647 |
| Finance leases receivable – net | | 15,059 | | 14,736 |
| Investment in associates | | 61,036 | | 55,489 |
| Venture capital investments | | 58,088 | | 41,977 |
| | | 29,576,936 | | 28,557,849 |
| Equipment and leasehold improvements | | 22,420 | | 22,254 |
| Computer software | | 31,967 | | 33,307 |
| Equipment under operating leases | | 77,625 | | 75,384 |
| Other assets | | 21,345 | | 21,345 |
| | | 153,357 | | 152,290 |
| **Total assets** | $ | 30,910,356 | $ | 29,950,905 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | $ | 68,402 | $ | 63,813 |
| Derivative financial liabilities | | 630 | | 422 |
| | | 69,032 | | 64,235 |
| Borrowings (Note 5) | | | | |
| Short-term debt | | 12,751,995 | | 12,352,406 |
| Long-term debt | | 12,328,548 | | 11,910,379 |
| | | 25,080,543 | | 24,262,785 |
| Transition loan liability | | 105,583 | | 105,222 |
| Post-employment benefit liabilities | | 148,395 | | 146,299 |
| Other liabilities | | 18,470 | | 18,293 |
| | | 272,448 | | 269,814 |
| **Total liabilities** | | 25,422,023 | | 24,596,834 |
| Equity | | | | |
| Contributed surplus | | 547,725 | | 547,725 |
| Retained earnings | | 4,837,456 | | 4,698,824 |
| Accumulated other comprehensive income | | 102,593 | | 107,121 |
| **Equity attributable to shareholder of parent entity** | | 5,487,774 | | 5,353,670 |
| Non-controlling interest | | 559 | | 401 |
| | | 5,488,333 | | 5,354,071 |
| **Total liabilities and equity** | $ | 30,910,356 | $ | 29,950,905 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

# Consolidated Statement of Income

| (Unaudited)<br>(thousands of Canadian dollars) | Three months ended<br>June 30, 2016 | <br>June 30, 2015 Restated Note 2 |
|---|---|---|
| Interest income | $ 282,050 | $ 288,418 |
| Interest expense | 41,173 | 46,374 |
| **Net interest income** | 240,877 | 242,044 |
| Provision for credit losses | 14,062 | 16,783 |
| **Net interest income after provision for credit losses** | 226,815 | 225,261 |
| Net insurance income | 4,314 | 4,263 |
| Net income from investment in associates | (1,108) | 9,851 |
| Other income | 235 | 201 |
| **Net interest income and non-interest income** | 230,256 | 239,576 |
| **Administration expenses** | | |
| Salary expense | 41,610 | 39,674 |
| Benefits expense | 16,520 | 17,759 |
| Professional fees expense | 11,547 | 8,366 |
| Facilities, software and equipment expense | 9,269 | 7,215 |
| Amortization and depreciation expense | 4,167 | 4,688 |
| Travel and training expense | 2,731 | 2,704 |
| Marketing and promotion expense | 1,275 | 1,061 |
| Other expenses | 3,037 | 2,546 |
| **Total administration expenses** | 90,156 | 84,013 |
| **Net income before fair value adjustment** | 140,100 | 155,563 |
| Fair value adjustment | (1,461) | (3,654) |
| **Net income** | $ 138,639 | $ 151,909 |
| Net income attributable to: | | |
| Shareholder of parent entity | $ 138,632 | $ 151,905 |
| Non-controlling interest | 7 | 4 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

# Consolidated Statement of Comprehensive Income

| (Unaudited)<br>(thousands of Canadian dollars) | Three months ended<br>June 30, 2016 | <br>June 30, 2015 Restated Note 2 |
|---|---|---|
| **Net income** | **$ 138,639** | $ 151,909 |
| **Other comprehensive income** | | |
| **Items that are or may be reclassified to net income** | | |
| Transfer of net realized gains on derivatives designated as cash flow hedges to net income | **(5,415)** | (5,958) |
| Net unrealized gains on available-for-sale financial assets | **887** | 8 |
| **Total other comprehensive loss** | **$ (4,528)** | $ (5,950) |
| **Total comprehensive income** | **$ 134,111** | $ 145,959 |
| Total comprehensive income attributable to: | | |
| Shareholder of parent entity | **$ 134,104** | $ 145,955 |
| Non-controlling interest | **7** | 4 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

# Consolidated Statement of Changes in Equity

| (Unaudited) (thousands of Canadian dollars) | Balance April 1, 2016 | Net income | Other comprehensive income | Contributions from non-controlling interest | Balance June 30, 2016 |
|---|---|---|---|---|---|
| **Contributed surplus** | $ 547,725 | $ - | $ - | - | $ 547,725 |
| **Retained earnings** | 4,698,824 | 138,632 | - | - | 4,837,456 |
| Net gains (losses) on derivatives designated as cash flow hedges | 108,179 | - | (5,415) | - | 102,764 |
| Net unrealized (losses) gains on available-for-sale financial assets | (1,058) | - | 887 | - | (171) |
| **Total accumulated other comprehensive income (loss)** | 107,121 | - | (4,528) | - | 102,593 |
| **Total equity attributable to parent** | 5,353,670 | 138,632 | (4,528) | - | 5,487,774 |
| **Non-controlling interest** | 401 | 7 | - | 151 | 559 |
| **Total** | $ 5,354,071 | $ 138,639 | $ (4,528) | 151 | $ 5,488,333 |

| (Unaudited) (thousands of Canadian dollars) | Balance April 1, 2015 Restated Note 2 | Net income Restated Note 2 | Other comprehensive income | Contributions from non-controlling interest | Balance June 30, 2015 Restated Note 2 |
|---|---|---|---|---|---|
| **Contributed surplus** | $ 547,725 | $ - | $ - | - | $ 547,725 |
| **Retained earnings** | 4,175,856 | 151,905 | - | - | 4,327,761 |
| Net gains (losses) on derivatives designated as cash flow hedges | 131,501 | - | (5,958) | - | 125,543 |
| Net unrealized losses (gains) on available-for-sale financial assets | (557) | - | 8 | - | (549) |
| **Total accumulated other comprehensive income (loss)** | 130,944 | - | (5,950) | - | 124,994 |
| **Total equity attributable to parent** | 4,854,525 | 151,905 | (5,950) | - | 5,000,480 |
| **Non-controlling interest** | 315 | 4 | - | 54 | 373 |
| **Total** | $ 4,854,840 | $ 151,909 | $ (5,950) | 54 | $ 5,000,853 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

# Consolidated Statement of Cash Flows

| (Unaudited)<br>(thousands of Canadian dollars) | Three months ended<br>June 30, 2016 | <br>June 30, 2015 Restated Note 2 |
|---|---|---|
| Operating activities | | |
| Net income | $ 138,639 | $ 151,909 |
| **Adjustments to determine net cash (used in) provided by operating activities:** | | |
| Net interest income | (240,877) | (242,044) |
| Unwind adjustment on impaired loans | (1,239) | (1,700) |
| Provision for credit losses | 14,062 | 16,783 |
| Fair value adjustment | 1,461 | 3,654 |
| Net income from investment in associates | 1,108 | (9,851) |
| Amortization and depreciation | 4,167 | 4,688 |
| Other | 157 | 11,127 |
| Net cash outflow from loans receivable | (1,027,894) | (785,784) |
| Net cash outflow from finance leases receivable | (247) | 274 |
| Net change in other operating assets and liabilities | 9,337 | 41,029 |
| Interest received | 295,689 | 302,523 |
| Interest paid | (40,268) | (44,485) |
| **Cash used in operating activities** | $ (845,905) | $ (551,877) |
| Investing activities | | |
| Net cash inflow from temporary investments | $ 126,306 | $ - |
| Acquisition of venture capital investments | (17,000) | (6,492) |
| Proceeds on disposal and repayment of venture capital investments | 1,000 | 89 |
| Net cash (outflow) inflow from investment in associates | (6,655) | 6,063 |
| Purchase of equipment and leasehold improvements | (1,899) | (2,324) |
| Purchase of computer software | (1,098) | (4,402) |
| Purchase of equipment under operating leases | (11,829) | (5,549) |
| Proceeds on disposal of equipment under operating leases | 5,343 | 4,797 |
| **Cash provided (used in) by investing activities** | $ 94,168 | $ (7,818) |
| Financing activities | | |
| Long-term debt issued | $ 2,480,000 | $ 2,105,000 |
| Long-term debt repaid | (2,505,601) | (1,980,000) |
| Short-term debt issued | 4,500,164 | 5,465,932 |
| Short-term debt repaid | (3,651,427) | (5,006,405) |
| **Cash provided by financing activities** | $ 823,136 | $ 584,527 |
| **Change in cash and cash equivalents** | $ 71,399 | $ 24,832 |
| Cash and cash equivalents, beginning of period | 831,387 | 1,164,315 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | (57) | (10,973) |
| **Cash and cash equivalents, end of period** | $ 902,729 | $ 1,178,174 |
| Cash and cash equivalents consists of: | | |
| Cash | $ 35,157 | $ 65,754 |
| Short-term investments | 867,572 | 1,112,420 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

## 1. Significant accounting policies

### Basis of presentation

The condensed consolidated interim financial statements (interim financial statements) comply with the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada.

These interim financial statements do not include all of the information required for complete annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended March 31, 2016.

Unless otherwise stated, all dollar amounts presented in the Notes to the Condensed Consolidated Financial Statements are in thousands of Canadian dollars, which is the functional currency of FCC.

### Accounting policies

The accounting policies adopted in the preparation of these interim financial statements are consistent with those followed in the annual, audited financial statements for the year ended March 31, 2016.

## 1. Significant accounting policies (continued)

### Accounting standards issued but not yet effective

FCC has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on FCC in the future. Management is in the process of assessing the impact of these standards and amendments on FCC's financial statements and accounting policies, and therefore the extent of the impact of the adoption of these standards and amendments is unknown. A number of other amendments and improvements have been issued by the IASB but are not yet effective are not listed below as FCC determined that they will not have a significant impact on the consolidated financial statements.

| Standard | Details | Date of initial application |
|---|---|---|
| IFRS 15 – Revenue from Contracts with customers | The IASB issued IFRS 15, which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. | April 1, 2018 |
| IFRS 9 – Financial Instruments | In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It is anticipated that this standard will change the classification of FCC's temporary investments and cash equivalents from available-for-sale to amortized cost.<br><br>IFRS 9 also introduces an expected loss impairment model for all financial assets not at fair value through profit and loss. The model has three stages:<br>(1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established<br>(2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized<br>(3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount<br><br>An enterprise-wide project has been established to meet the requirement to adopt IFRS 9. It is supported by a formal governance framework and a robust implementation plan.<br><br>IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. | April 1, 2018 |
| IFRS 16 – Leases | In January 2016, the IASB issued IFRS 16, which requires all leases to be reported on a lessee's balance sheet as assets and liabilities. There are also changes in accounting over the life of the lease. In particular, lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. It is anticipated this standard will result in an increase in both lease assets and lease liabilities on the balance sheet as well as an accelerated pattern for expense recognition.<br>Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases. | April 1, 2019 |

## 2. Prior period error

During the prior year, FCC reassessed the accounting for the Avrio Equity Funds and it was concluded that they should not be accounted for using the consolidation method. FCC has significant influence over the Avrio Equity Funds, therefore these funds are investments in associates and should be accounted for using the equity method. The corporation has retroactively corrected these errors and restated the comparative figures in these interim financial statements for the period ended June 30, 2015.

## 3. Loans receivable – net

| | Term to maturity | | | | |
|---|---|---|---|---|---|
| **($ thousands)** | **Within 1 year** | **1 - 5 years** | **Over 5 years** | **June 30, 2016** | March 31, 2016 |
| Floating | $ 3,305,089 | $ 13,056,238 | $ 647,571 | $ 17,008,898 | $ 16,514,801 |
| Fixed | 2,890,579 | 7,857,077 | 1,929,572 | 12,677,228 | 12,162,015 |
| **Gross loans receivable** | 6,195,668 | 20,913,315 | 2,577,143 | 29,686,126 | 28,676,816 |
| Deferred loan fees | | | | (22,120) | (21,139) |
| **Loans receivable – total** | | | | 29,664,006 | 28,655,677 |
| Allowance for credit losses | | | | (221,253) | (210,030) |
| **Loans receivable – net** | | | | $ 29,442,753 | $ 28,445,647 |

## 4. Allowance for credit losses – loans receivable

| **($ thousands)** | **June 30, 2016** | March 31, 2016 |
|---|---|---|
| Individual allowance, beginning of period | $ 87,686 | $ 93,433 |
| Provision for credit losses | (2,019) | 30,601 |
| Losses covered under the Hog Industry Loan Loss Reserve Program | - | (1,313) |
| Unwind adjustment on impaired loans | (1,239) | (2,630) |
| Writeoffs | (1,090) | (35,700) |
| Recoveries | 558 | 3,295 |
| **Individual allowance, end of period** | $ 83,896 | $ 87,686 |
| Collective allowance, beginning of period | $ 122,344 | $ 112,823 |
| Provision for credit losses | 16,081 | 11,983 |
| Losses covered under the Hog Industry Loan Loss Reserve Program | (337) | 577 |
| Writeoffs | (998) | (3,719) |
| Recoveries | 267 | 680 |
| **Collective allowance, end of period** | $ 137,357 | $ 122,344 |
| **Total allowance** | $ 221,253 | $ 210,030 |

## 5. Borrowings

### Short-term debt

| ($ thousands) | | June 30, 2016 | | March 31, 2016 |
|---|---|---|---|---|
| **Government of Canada debt** | | | | |
| Floating-rate borrowings | $ | **8,191,729** | $ | 7,960,648 |
| Fixed-rate borrowings | | **4,115,887** | | 3,939,463 |
| | | **12,307,616** | | 11,900,111 |
| **Capital markets debt** | | | | |
| USD fixed-rate promissory notes (1) | | **444,379** | | 452,295 |
| **Total** | $ | **12,751,995** | $ | 12,352,406 |

(1) $343.9 million USD (March 31, 2016 - $348.1 million USD)

### Long-term debt

| ($ thousands) | | June 30, 2016 | | March 31, 2016 |
|---|---|---|---|---|
| **Government of Canada debt** | | | | |
| Floating-rate borrowings | $ | **8,134,342** | $ | 7,749,307 |
| Fixed-rate borrowings | | **3,888,101** | | 3,851,430 |
| | | **12,022,443** | | 11,600,737 |
| **Capital markets debt** | | | | |
| Retail and institutional fixed-rate notes | | **306,105** | | 309,642 |
| **Total** | $ | **12,328,548** | $ | 11,910,379 |